

**BEAR RIVER HEAD START, INC.**

**Financial Statements**

**January 31, 2006**

**(With Independent Auditors' Report Thereon)**

**Bear River Head Start  
Financial Statements  
Government Auditing Standards, OMB Circular A-133 and Other Required Reports  
Year Ended January 31, 2006**

<b>Table of Contents</b>	<b><u>Page</u></b>
Independent Auditors' Report	2
Basic Financial Statements:	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows	9
Notes to the Financial Statements	10
Supplemental Information:	
Statements of Activities – Grant Basis	16
<u>Government Auditing Standards:</u> Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17
<u>OMB Circular A-133:</u> Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	19
Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	22
Schedule of Prior Audit Findings and Questioned Costs	23
Schedule of Findings and Questioned Costs	24

## The Board of Directors Bear River Head Start

### Independent Auditors' Report

We have audited the accompanying statement of financial position of Bear River Head Start (BRHS) (a not-for-profit organization) as of January 31, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of BRHS. Our responsibility is to express an opinion on these financial statements based upon our audit. The financial statements of BRHS as of January 31, 2005, were audited by other auditors whose report dated April 14, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Bear River Head Start as of January 31, 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006, on our consideration of the BRHS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of BRHS, taken as a whole. The supplementary information contained in Schedule 1 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Schmitt, Higgins, Smith & Co. P.C.*

April 7, 2006

BEAR RIVER HEAD START, INC.  
STATEMENTS OF FINANCIAL POSITION  
January 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash	\$ 114,343	\$ 131,545
Certificate of deposit	15,452	14,974
Prepaid expenses	-	2,290
Grants receivable	<u>344,723</u>	<u>422,944</u>
Total current assets	<u>474,518</u>	<u>571,753</u>
Other assets:		
Deposits	2,819	2,819
Equipment, net	<u>152,531</u>	<u>144,868</u>
Total other assets	<u>155,350</u>	<u>147,687</u>
Total assets	<u>\$ 629,868</u>	<u>\$ 719,440</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 45,243	\$ 47,355
Interest payable	-	925
Salaries payable	195,938	186,897
Accrued payroll taxes/benefits	15,963	30,365
Retirement payable	177,814	263,128
Current portion of note payable	<u>6,094</u>	<u>4,851</u>
Total current liabilities	441,052	533,521
Note payable, less current portion	<u>11,259</u>	<u>17,398</u>
Total liabilities	<u>452,311</u>	<u>550,919</u>
Net assets:		
Unrestricted	<u>177,557</u>	<u>168,521</u>
Total liabilities and net assets	<u>\$ 629,868</u>	<u>\$ 719,440</u>

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF ACTIVITIES  
For the Years Ended January 31, 2006 and 2005

<u>Changes in unrestricted net assets</u>	<u>2006</u>	<u>2005</u>
Unrestricted revenues		
Contracts and grants	\$ 4,158,373	\$ 4,096,339
In-kind contributions	707,258	546,677
Other	10,726	17,730
Total unrestricted revenues	<u>4,876,357</u>	<u>4,660,746</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>
Total unrestricted revenues and support	<u>4,876,357</u>	<u>4,660,746</u>
Expenses:		
Program services	4,461,501	4,235,684
Administration expenses	405,820	425,792
Total expenses	<u>4,867,321</u>	<u>4,661,476</u>
Increase (decrease) in unrestricted net assets	9,036	(730)
Net assets - beginning of year	<u>168,521</u>	<u>169,251</u>
Net assets - end of year	<u>\$ 177,557</u>	<u>\$ 168,521</u>

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended January 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Salaries	\$ 2,307,437	\$ 2,319,384
Employee benefits	679,564	778,099
In-kind costs	707,258	546,677
Supplies and maintenance	212,213	217,568
Rent and utilities	335,969	205,677
Nutrition	125,920	124,130
Training	61,282	92,369
In-area travel	95,645	91,665
Professional services	120,714	62,457
Health services and training	73,143	60,357
Parent involvement	47,356	54,979
Depreciation	37,372	46,463
Insurance	44,215	38,316
Policy Council	7,781	15,036
Family service center	<u>11,452</u>	<u>8,299</u>
 Total expenses	 \$ <u>4,867,321</u>	 \$ <u>4,661,476</u>

(continued)

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
For the Year Ended January 31, 2006

	Program Services					Other grants/ Corporate Funds		Administration	2006 Total
	Utah Head Start	Idaho Head Start	Early Head Start	Idaho TANF					
Salaries	\$ 1,152,031	\$ 365,659	\$ 542,374	\$ 60,064	\$ 12,461	\$ 174,848	\$ 2,307,437		
Employee benefits	322,338	112,093	160,322	18,610	6,753	59,448	679,564		
Total personnel	1,474,369	477,752	702,696	78,674	19,214	234,296	2,987,001		
In-kind costs	333,591	354,563	14,413	-	-	4,691	707,258		
Supplies and maintenance	83,633	2,117	36,796	4,469	16,439	68,759	212,213		
Rent and utilities	259,043	8,149	39,750	2,008	4,467	22,552	335,969		
Nutrition	89,378	26,146	6,524	3,872	-	-	125,920		
Training	26,182	10,020	21,338	1,547	419	1,776	61,282		
In-area travel	38,123	29,313	19,435	4,493	6	4,275	95,645		
Professional services	68,484	317	3,513	1,692	423	46,285	120,714		
Health	40,394	6,528	21,520	967	3,734	-	73,143		
Parents	27,893	8,500	7,662	1,259	2,042	-	47,356		
Depreciation	22,533	2,540	3,362	1,111	4,000	3,826	37,372		
Insurance	19,161	6,445	5,367	1,366	297	11,579	44,215		
Policy Council	-	-	-	-	-	7,781	7,781		
Family service center	7,587	2,002	1,856	-	7	-	11,452		
Total expenses	\$ 2,490,371	\$ 934,392	\$ 884,232	\$ 101,458	\$ 51,048	\$ 405,820	\$ 4,867,321		

(continued)

The accompanying notes are an integral part of these financial statements.



**BEAR RIVER HEAD START, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Year Ended January 31, 2005**

	Program Services					Other grants/		2005 Total
	Utah Head Start	Idaho Head Start	Early Head Start	Idaho TANF	Corporate Funds	Administration		
Salaries	\$ 1,154,726	\$ 370,624	\$ 521,729	\$ 66,639	\$ 21,430	\$ 184,236	\$	2,319,384
Employee benefits	420,757	95,371	180,294	16,830	2,207	62,640		778,099
Total personnel	1,575,483	465,995	702,023	83,469	23,637	246,876		3,097,483
In-kind costs	298,376	224,885	11,255	-	-	12,161		546,677
Supplies and maintenance	98,853	11,330	30,076	2,000	14,086	61,223		217,568
Rent and utilities	121,836	17,278	43,008	3,049	4,457	16,049		205,677
Nutrition	87,645	25,421	6,578	4,486	-	-		124,130
Professional services	33,913	4,310	70	761	594	52,721		92,369
In area travel	35,338	26,614	17,394	4,696	58	7,565		91,665
Health	38,520	3,475	15,476	613	2,273	-		60,357
Training	25,600	11,420	21,502	2,230	80	1,625		62,457
Parents	30,957	8,684	8,537	1,533	5,268	-		54,979
Depreciation	22,496	7,005	3,639	1,237	495	3,444		38,316
Insurance	21,856	7,740	5,800	1,366	609	9,092		46,463
Policy Council	-	-	-	-	-	15,036		15,036
Family service center	6,733	366	1,200	-	-	-		8,299
Total expenses	\$ 2,397,606	\$ 814,523	\$ 866,558	\$ 105,440	\$ 51,557	\$ 425,792	\$	4,661,476

The accompanying notes are an integral part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF CASH FLOWS  
For the Years Ended January 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Cash flows from operating activities:</u>		
Increase (decrease) in unrestricted net assets	\$ 9,036	\$ (730)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	37,372	38,316
(Increase) decrease in:		
Grants receivable	78,221	24,345
Deposits	-	1,525
Prepaid expenses	2,290	(2,290)
Increase (decrease) in:		
Accounts payable	(2,044)	(47,032)
Interest payable	(925)	119
Salaries payable	9,041	47,382
Accrued payroll taxes/benefits	(14,402)	983
Retirement payable	(85,314)	69,283
Other liabilities	(68)	(11,432)
Net cash provided by operating activities	<u>33,207</u>	<u>120,469</u>
<u>Cash flows from investing activities:</u>		
Increase in certificate of deposit	(478)	(378)
Purchase of equipment	<u>(45,035)</u>	<u>(30,872)</u>
Net cash used in investing activities	<u>(45,513)</u>	<u>(31,250)</u>
<u>Cash flows from financing activities:</u>		
Payments on promissory note	<u>(4,896)</u>	<u>(2,168)</u>
Net cash used in financing activities	<u>(4,896)</u>	<u>(2,168)</u>
Net increase (decrease) in cash	(17,202)	87,051
Cash and cash equivalents, beginning of year	<u>131,545</u>	<u>44,494</u>
Cash and cash equivalents, end of year	\$ <u>114,343</u>	\$ <u>131,545</u>
Cash paid for interest	\$ <u>1,314</u>	\$ <u>4,016</u>

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2006 and 2005

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization

Bear River Head Start, Inc., (BRHS) is a not-for-profit corporation, exempt from income tax under Section 501(c) (3) of the Internal Revenue Code. Further, it has been classified as an organization that is not a private foundation under Section 509(a) (2) of the Internal Revenue Code. The primary business activity of BRHS is to operate a Head Start program in Northern Utah and in Southeastern Idaho. BRHS is substantially funded by federal grants, receives a limited amount of State and local grants, and operates with only a minimal amount of corporate funds.

The program objectives of BRHS are to provide comprehensive health, education, nutrition, social and other services primarily to economically disadvantaged infants and preschool children and their families, and to involve parents in activities with their children so that the children will attain overall social competence. Parental participation in various decision making processes, related to the operations, is a key factor in the success of the program. Collaborative arrangements with other community agencies are actively established and are a second key factor in the success of the program, through which these objectives are met.

Additional objectives are to establish and operate any program which may improve the quality of life by reducing personal hardship, mobilizing personal resources, and combating community deterioration; to coordinate and integrate the efforts and resources of communities for remedying deficiencies and reducing impoverishment; to promote education and literacy, to improve employability, and to promote health through education and through integration with community resources; and to promote, where necessary, new solutions for those problems beyond resolution by existing resources.

Financial Statement Presentation

BRHS's financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Company is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, BRHS is required to present a statement of cash flows.

Cash

For purposes of the statement of cash flows, cash includes only deposits with an original maturity of less than three months.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
January 31, 2006 and 2005

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Receivables

BRHS receivables arise primarily from reimbursable grants with government entities. A receivable is recognized, up to the grant amount, when allowable expenses are incurred. Based on past experience, an allowance for uncollectible amounts is not considered necessary.

Contributions

Support that is restricted by contract or donor provisions is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support, if any, is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. No contributions have been recorded as restricted assets.

Donated Materials and Services

Donated materials and equipment, if any, are recorded as support at their estimated values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated.

BRHS receives a substantial amount of services donated by parents or other non-specialized volunteers in carrying out BRHS' programs. During fiscal years 2006 and 2005, BRHS received approximately 79,000 and 91,000 hours of donated services by volunteers with an estimated fair value of \$785,699 and \$916,992 respectively. No amounts have been reflected in the financial statements for these donated services. Federal matching requirements are satisfied through the donated services of volunteers.

Equipment

Equipment is stated at cost or, if acquired by gift, at the estimated fair market value at the date of gift. Equipment is defined as tangible personal property with an acquisition cost of \$5,000 or more per unit, a useful life of more than one year and BRHS has or expects to receive title to the asset. Other assets purchased with federal funds are expensed as purchased if BRHS determines that it is not probable that title to such assets will be transferred to BRHS.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
January 31, 2006 and 2005

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Equipment (Continued)

Depreciation is provided over the estimated useful lives (five to ten years) of the equipment using the straight-line method. Upon disposition of an asset, its cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

Compensated Absences

Employees earn leave days each year based on length of service for use as vacation and personal leave. Vacation leave is earned after one year of full time employment or on a pro-rata basis for part-time employment. Vacation leave is forfeited at the end of the fiscal year. Therefore, no accrual has been made for vacation leave. Personal leave accrues at one day per month until ten days are earned. Unused personal leave is paid out at the end of the fiscal year at one-half of the employee's daily rate. An accrual for the personal leave to be paid out is included in accrued salaries.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Concentration of Credit Risk

On January 31, 2006 and 2005, BRHS had demand deposits in excess of federally insured limits in the amounts of \$37,437 and \$70,822, respectively.

Note 3 – Certificate of Deposit

At January 31, 2006 and 2005, BRHS owned a certificate of deposit bearing interest at 3.17% and 3.15%, respectively. The Certificate matures in January 2007.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
January 31, 2006 and 2005

Note 4 – Grants Receivable

At January 31, 2006 and 2005, grants receivable, which are unsecured but considered fully collectible, consisted of the following:

	<u>2006</u>	<u>2005</u>
U.S. Department of Agriculture	\$ 12,160	9,947
U.S. Department of Health and Human Services	298,361	375,167
Idaho Head Start Association	31,006	33,334
Other grant receivables	<u>3,196</u>	<u>4,496</u>
Total	\$ <u>344,723</u>	<u>422,944</u>

Note 5 – Equipment

At January 31, 2006 and 2005, equipment consisted of the following:

	<u>2006</u>	<u>2005</u>
Portable classroom	\$ 40,000	40,000
Equipment	145,335	110,335
Vehicles	<u>251,316</u>	<u>241,281</u>
Total equipment	436,651	391,616
Less accumulated depreciation	<u>(284,120)</u>	<u>(246,748)</u>
Equipment, net	\$ <u>152,531</u>	<u>144,868</u>

The equipment and vehicles were purchased with federal funds. However, BRHS expects to receive title to these assets at the end of their useful lives or upon disposal.

At January 31, 2006 and 2005, BRHS also had purchased fixed assets with federal funds and had fiduciary responsibility for those assets. The following is a summary of activity of these fiduciary assets to which BRHS does not expect to receive title.

	Balance			Balance
	<u>2/01/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>1/31/06</u>
Land	\$ 103,792	-	80,008	23,784
Buildings	142,401	-	-	142,401
Portable classrooms	<u>478,204</u>	<u>-</u>	<u>45,000</u>	<u>433,204</u>
Total	\$ <u>724,397</u>	<u>-</u>	<u>125,008</u>	<u>599,389</u>

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
January 31, 2006 and 2005

Note 6 – Note Payable

Note payable at year-end consisted of the following:

	<u>2006</u>	<u>2005</u>
Due to the Lewiston State Bank, collateralized by a portable classroom in Preston, Idaho, payable in annual installments of \$6,184 including interest at 6.0%, final payment due on March 1, 2008.	\$ 17,353	22,249
Less current portion	<u>(6,094)</u>	<u>(4,851)</u>
Long-term portion	\$ <u>11,259</u>	<u>17,398</u>

The estimated principal portions due on the note payable for the next five years are as follows:

<u>Year Ending</u> <u>January 31,</u>	<u>Amount</u>
2007	\$ 6,094
2008	5,489
2009	<u>5,770</u>
Total	\$ <u>17,353</u>

Note 7 – Defined Contribution Plan

BRHS participates in a 403(b) retirement plan. Employees are immediately eligible to participate in the plan. The contributions are deposited into individual accounts. Each employee's individual account is available for withdrawal in its entirety at termination or death. The plan does not require matching funds from BRHS and BRHS has not made any matching contributions to the plan.

BRHS also participates in a Simplified Employee Pension Plan (SEP) that covers all employees who have reached the age of 18 and who had been an employee for 13 months of the immediately preceding 5 plan years. This plan allows BRHS to contribute up to 15% of the employees' salary on an annual basis, subject to Internal Revenue Service regulations. Contributions to the SEP plan for fiscal years 2006 and 2005 were \$177,814 and \$263,128 respectively.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
January 31, 2006 and 2005

Note 8 – Operating Leases

In 2003, BRHS entered into a non-cancelable lease agreement for office space for Early Head Start, administration and child care connection. The lease commenced on November 1, 2003 and requires monthly rent payments ranging from \$5,450 to \$6,164 plus a proportionate share of utility charges based on square footage. A new lease commenced on August 1, 2004 for PHS admin space and requires monthly payments ranging from \$3,198 to \$3,600 plus a proportionate share of utility charges based on square footage. The lease expires October 31, 2009. On February 1, 2005 BRHS entered a lease for classroom space in Logan, Utah that requires monthly payments ranging from \$14,713 to \$16,183. The lease expires January 31, 2015. On October 1, 2005 BRHS entered into a lease for space in Preston, Idaho with monthly payments of \$350 through January 31, 2008. Rent expense for fiscal years 2006 and 2005 was \$277,752 and \$125,306, respectively.

Future minimum rental payments under the non-cancelable operating lease (excluding the utility charge) for each of the next five years are listed below.

<u>Year Ending</u> <u>January 31,</u>		<u>Amount</u>
2007	\$	289,548
2008		293,598
2009		274,279
2010		208,949
2011		194,207
2012		194,207
2013		194,207
2014		194,207
2015		<u>194,207</u>
Total	\$	<u>2,037,409</u>



SCHEDULE 1

BEAR RIVER HEAD START, INC.  
STATEMENTS OF ACTIVITIES - GRANT BASIS  
For the Years Ended January 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Support:		
Contracts and grants	\$ 4,158,373	\$ 4,096,339
In-kind contributions	1,492,957	1,463,669
Interest income	<u>250</u>	<u>-</u>
Total support	<u>5,651,580</u>	<u>5,560,008</u>
Expenses:		
Program services:		
Utah Head Start	2,819,919	2,842,851
Idaho Head Start	1,051,579	941,508
Early Head Start	1,204,796	1,209,052
Idaho TANF	100,347	104,203
Other grants	<u>72,945</u>	<u>40,046</u>
Total program services	5,249,586	5,137,660
Administrative expenses	<u>401,994</u>	<u>422,348</u>
Total expenses	<u>5,651,580</u>	<u>5,560,008</u>
Change in net assets	<u>-</u>	<u>-</u>
Reconciliation to GAAP basis:		
Corporate interest income	776	802
Corporate income	9,700	16,928
Corporate expenses	(9,103)	(11,016)
Non-GAAP in-kind contributions	(785,699)	(916,992)
Non-GAAP in-kind costs	785,699	916,992
Equipment	45,035	30,872
Depreciation	<u>(37,372)</u>	<u>(38,316)</u>
Total reconciling items	<u>9,036</u>	<u>(730)</u>
Increase (decrease) in net assets	\$ <u><u>9,036</u></u>	\$ <u><u>(730)</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**The Board of Directors  
Bear River Head Start, Inc., Inc.**

We have audited the basic financial statements of Bear River Head Start, Inc., Inc. (the BRHS), as of and for the year ended January 31, 2006, and have issued our report thereon dated April 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered BRHS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weakness.

**Compliance**

As part of obtaining reasonable assurance about whether the BRHS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the County Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Schmitt, Giffels, Smia : C.. A. C.*

April 7, 2006

The management of Bear River Head Start, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Bear River Head Start, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Bear River Head Start, Inc. as of and for the year ended January 31, 2006, which collectively comprise the Bear River Head Start, Inc. basic financial statements and have issued our report thereon dated April 7, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Bear River Head Start, Inc. basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of Bear River Head Start, Inc.. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Schmitt, Griffiths, Smirnov : C.P.C.*

April 7, 2006

BEAR RIVER HEAD START, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended January 31, 2006

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA No.	Award/ Contract Number	Award	Disbursements/ Expenses
<u>U.S. Dept. of Health and Human Services (HHS)</u>				
Direct Program:				
2005-2006 Head Start	93.600	08CH0056/33	\$ 3,224,518	\$ 3,224,518
2005-2006 Head Start	93.600	10CH0174/03	643,576	643,576
Passed through the Idaho Head Start Association:				
Temporary Assistance for Needy Families	93.558	05-9010	105,443	45,449
	93.558	06-9012	105,443	<u>54,898</u>
Total Department of Health and Human Services				<u>3,968,441</u>
<u>U.S. Dept. of Agriculture</u>				
Passed through Utah State Office of Education				
Child Care Food Program	10.558	F-1	73,289	73,289
Child Care Food Program	10.558	KG	1,868	1,868
Passed through Idaho State Department of Education Child Nutrition Section				
Child Care Food Program	10.558	853	26,288	<u>26,288</u>
Total Department of Agriculture				<u>101,445</u>
Total Federal Awards			\$	<u><u>4,069,886</u></u>

**Bear River Head Start**  
**Notes to Schedule of Expenditures of Federal Awards**  
**January 31, 2006**

**Note A - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bear River Head Start, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from accounts presented in, or used in the preparation of, the basic financial statements.

**Bear River Head Start  
Schedule of Prior Audit Findings and Questioned Costs  
Year Ended January 31, 2006**

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No prior audit findings are required to be reported in the current year.



**Bear River Head Start  
Schedule of Findings and Questioned Costs  
Year Ended January 31, 2006**

**SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Bear River Head Start, Inc.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the basic financial statements were disclosed during the audit, as required to be reported in accordance with government auditing standards.
4. There were no reportable conditions disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Bear River Head Start, Inc. expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for Bear River Head Start, Inc. reported in the schedule of prior audit findings and questioned costs.
7. The programs tested as major federal programs were as follows:

<u>Name</u>	<u>CFDA No.</u>
Head Start	14.235

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Bear River Head Start, Inc. was determined to be a low risk auditee.

**Bear River Head Start  
Schedule of Findings and Questioned Costs, Continued  
Year Ended January 31, 2006**

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD  
PROGRAMS AUDIT:**

There were no current year findings.